

Message Text

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ACTION SS-25

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C O N F I D E N T I A L MOSCOW 2780

EXDIS

E.O. 11652: GDS

TAGS: ETRD EFIN EMIN UR US

SUBJECT: POSSIBLE SOVIET ACTION TO SLOW DOWN OR SUSPEND
NEGOTIATIONS ON IMPORTANT CONTRACTS WITH US FIRMS

REF: MOSCOW 2779; MOSCOW 2778

1. DURING PAST WEEK WE HAVE NOTED NEGATIVE SOVIET ACTION ON NEGOTIATIONS FOR TWO IMPORTANT CONTRACTS WHICH HAVE BEEN PENDING IN SOVIET-US TRADE. EVIDENCE APPEARS FAIRLY FIRM THAT SOVIETS HAVE INTERRUPTED NEGOTIATIONS -- REPORTEDLY ON ORDERS FROM A HIGH LEVEL -- FOR PURCHASE OF DOLS 35 - 50 MILLION AIR TRAFFIC CONTROL SYSTEM FROM SPERRY UNIVAC, AND ARE NOW LOOKING FOR A EUROPEAN SUPPLIER. AND KAISER REPRESENTATIVES RECENTLY IN MOSCOW HAVE RECEIVED DISCOURAGING NEWS ON PROSPECTS FOR EARLY SIGNATURE OF AN APPROXIMATELY 500 - 800 MILLION DOLLAR CONTRACT FOR ALUMINA AND ALUMINUM SMELTER COMPLEX, ALTHOUGH SOVIETS MADE IT CLEAR THAT NEGOTIATIONS FOR SIMILAR CONTRACT WITH PECHINEY OF FRANCE ARE PROCEEDING ON SCHEDULE.

2. IT IS TOO EARLY TO CLASSIFY THESE TWO DEVELOPMENTS AS A TREND, A SHIFT FROM THE BUSINESS-AS-USUAL POLICY WHICH THE SOVIETS HAVE PERSISTENTLY PROCLAIMED OVER SIX-WEEK PERIOD SINCE THEY ANNOUNCED THEIR DECISION NOT TO IMPLEMENT US-USSR TRADE AGREEMENT. THERE IS STILL A POSSIBILITY THAT THE APPARENT DECISION ON PROCUREMENT OF THE AIR TRAFFIC CONTROL SYSTEM MAY BE REVERSED.

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3. THE TWO ACTIONS CANNOT, HOWEVER, BE OVERLOOKED, ESPECIALLY

SINCE THEY HAVE COME SO CLOSE TOGETHER AND SINCE THE CONTRACTS INVOLVED ARE UNUSUALLY IMPORTANT. SPERRY-UNIVAC SALE IS REGARDED AS PIVOTAL IN DEVELOPMENT OF US-SOVIET COOPERATION IN AIR TRANSPORT AREA, AND COULD ALSO BE VALUABLE FIRST STEP LEADING TO FURTHER ATC SALES WHICH COULD AMOUNT TO AS MUCH AS ONE BILLION DOLLARS. KAISER CONTRACT, WHICH INVOLVES VARIOUS OFFSET ARRANGEMENTS WHICH WOULD HELP CIRCUMVENT CREDIT BARRIER, IS IMPORTANT FOR SHEER SIZE OF EQUIPMENT AND TECHNOLOGY SALES AND VOLUME OF TRADE IT WOULD GENERATE.

4. SOVIET DECISION TO CONSPICUOUSLY SLOW DOWN OR SUSPEND ACTION ON SOME IMPORTANT NEGOTIATIONS WITH US FIRMS WOULD CONFORM NICELY WITH REPEATED ASSERTIONS IN ALL SOVIET NEWS MEDIA THAT USSR HAS NO ALTERNATIVE BUT TO INCREASE TRADE WITH WESTERN EUROPE AND JAPAN NOW THAT UNITED STATES HAS TURNED ITS BACK AND REFUSED TO GRANT CREDITS. IN THIS CONNECTION, WE HAVE NOTED WHAT APPEARS TO BE UNUSUALLY HEAVY PRESS PLAY FOR ECONOMIC AGREEMENTS SIGNED WITH UK DURING RECENT WILSON VISIT TO MOSCOW, WHICH INCLUDED POUNDS 950 MILLION CREDIT LINE.

5. NEXT SEVERAL WEEKS SHOULD GIVE US A MORE PRECISE PICTURE.
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Margaret P. Grafeld
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